Risk Management Advisor

Risk Management Considerations for E-Business

Contributed by Mike Richmond, Vice President, Marsh, Inc.

In just a few short years, Internet technologies have leveled the playing field for businesses of every type, including the business of government, allowing them to compete in global markets and do business in entirely new ways. It has extended corporate networks and information resources out to customers, employees, vendors, suppliers, partners, and remote office locations, enabling the business environment we now call e-Business.

Internet technology (whether internets, private networks, extranets, or the Web) means more than a marketing channel, a way to speed up transmissions, or a new advertising medium. It is the foundation of the new enterprise.

But with all the opportunities of e-Business come many new and complex risks. The open nature of Internet technologies increases vulnerability to network disruptions, security breaches, introduction of computer viruses, electronic espionage, and information theft. All indications are that these incidents and the resultant financial losses are on the rise.

> *"Internet technology... [is] more than a marketing channel... It is the foundation of the new enterprise."*

Direct and indirect risks of e-Business activities are business issues; not strictly IT issues, since they affect earnings, enterprise value, and your public reputation. Managing e-Business risks and issues is a necessity.

Consider:

▸ How costly would a disruption or interruption be to your (or a critical business partner's) network application?

▸ What could happen if vital information assets are disclosed, lost, corrupted, or destroyed? Think about your intellectual property, customer information, and other proprietary information.

▸ What if use of your network caused financial harm to your business partners both internal and external? Expensive litigation can result from liability arising from spread the of a computer virus to another system, and disclosure of customers' personal or financial data.

What are the exposures? What are the risk management solutions to this new exposure? The wide range of potential problems include:

Managing Risk Effectively

Carol Grupp, Director of Administrative Services, University of Idaho

What are the elements of an effective risk management program?

Risk management includes risk transfer, risk minimization and risk assumption. The purchase of insurance is the most common form of risk transfer. Hold harmless, indemnification and assumption of risk statements are other mechanisms for contractually transferring risk to someone willing to assume it for a fee, a service or a privilege.

Dollars invested in risk transfer are an effective way to manage low-probability, high-severity exposures and to minimize the marginal risk that results from discretionary, non-mission critical activities. However, there is

little cumulative effect of risk transfer. Dollars must be re-invested in risk transfer for additional terms to maintain the same level of protection.

Dollars invested in risk minimization activities can have a cumulative effect in reducing the long-term cost of risk. Risk minimization begins with a clear statement of management commitment to loss control. Management practices that encourage responsibility and discourage risky behaviors are essential in developing and maintaining a culture of risk management. Clear statements about safety as an institutional value in new employee orientation programs, and regular training in company procedures, safe work practices, regulatory requirements, and management skills hone awareness of exposures and nurture the institutional culture of risk management.
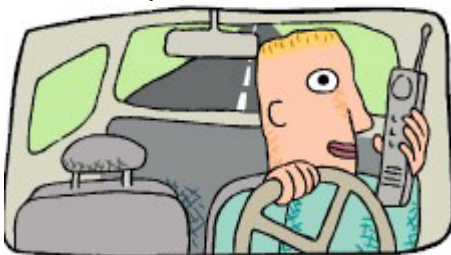
Cell Phones and Driving Safety

Mike Poulin, Industrial Safety Supervisor, Division of Building Safety

Are cell phones dangerous? Some people believe they create enough of a distraction to turn otherwise good drivers into a serious driving hazard. But while people have caused collisions while using the device, cellular phones can also boost safety when properly used. People are passionate about their cellular phones. Those who rely on them cannot imagine life without the incredible freedom, convenience, and security they offer. Those who do not have them resent the presumed arrogance of drivers who believe that their call is so important that they are willing to endanger those around them.

Some drivers do not feel safe on the road surrounded by distracted drivers on their cell phones. Even some dedicated cell phone users admit talking on the cell phone can be distracting and lead them to forget their primary responsibility, driving safely. Everyone drives worse when they are on the phone. Many drivers talking on their cell phone are a collision waiting to happen. People with a cellular phone in their car run a 34-percent higher risk of having a collision. Apparently, while driving, cellular-phone use as a single behavior affects crash risk to a greater degree than many other-in-car activities, according to a report from the Criminal Justice Department, Rochester Institute of Technology.

Cell phones represent a unique distraction for drivers. Phone conversations usually require more time than other driving distractions, and take a heavier toll on drivers' ability to react to changing traffic conditions. Driving safety must take precedence over using a cell phone. When on the road, concentrate on safe and defensive driving, not on making phone calls.

A cellular phone is both a responsibility and a privilege, we need to know how to use it safely to maximize the benefits of security and convenience.

Tips for Avoiding Cell Phone Driving Distractions:

✔ *Use a hands free speaker phone* installation.

✔ *Speed dialing* also reduces the time needed to look at the cell phone.

✔ If you must dial and drive, *wait until you stop at a light* or pull off the road.

✔ *Use voice-activated dialing* to avoid tying up one or both hands and looking down while punching in the numbers.

✔ *Voice mail* is a good way to reduce distractions, when you are unable to answer the phone.

✔ If the call is emotional, requires concentration, or to resolve an argument, *get off the phone* or *off the road.*

✔ Do not add another distraction to the mix. The *risk of a crash doubles* when a driver uses a cell phone while drinking a beverage or lighting a cigarette.

✔ *Drive defensively*, look out for the other driver who is using a cell phone and not paying attention to their driving.

"Managing" Continued from page 1

"Effective risk management is a collective undertaking that requires... commitment... at all levels."

Most benchmarking activities track progress by measuring outcomes. In risk management, this approach can lead to counting the number of adverse events—accidents, property losses, discrimination claims, etc.—but does not account for the "near misses". Over time, the cumulative positive effectiveness of loss control activities reduces the number of "countable events", increasing the variance and eroding usefulness of the data.

Tracking the "inputs"—the activities that are known to foster a culture of risk management—is an effective way not only to measure performance but also to ensure continued progress. Inspections of worksite practices that try to "catch 'em doing it right" provide opportunities to reinforce safe behaviors. Tracking the number of safety meetings, the hours of safety training per employee per year, the number of management workshops in programmatic risk management presented, or the dollars invested in worksite safety improvements as a percentage of total budget, encourage activities that will reduce the risk of loss. Management development programs for newly promoted supervisors and department heads ensure they have a clear understanding of institutional values and goals, regulatory requirements and the supervisory skills necessary to achieve institutional objectives through the efforts of their employees.

Risk that is not transferred, eliminated or minimized is risk that is assumed. Effective risk management is a collective undertaking that requires awareness, commitment, and vigilance at all levels. While no individual risk manager, or risk management office, can single handedly manage all the risk that a large institution faces on a daily basis, the effective risk manager identifies exposures, develops training programs, benchmarks performance and informs management regarding progress—balancing risk transfer, risk minimization and risk assumption.

"Defensive Driving Course Results" for FY 2000

Jim Coffey, Loss Control Specialist, Office of Insurance Management

When Idaho state employees attend an approved Defensive Driving Course it helps to bring more automobile safety awareness, which leads to fewer automobile accidents, and further, reduces automobile damages and injuries. These defensive driving courses also pay dividends.

As most of you are aware, regardless of whether the DDC program is in-house or through the Statewide DDC program, all qualified students who complete an approved defensive driving course permit their agency to receive a $20.00 credit (on an every other fiscal year basis) toward their liability premium. For accounting purposes, the DDC premium credit program runs from May to May of each year with the credit applying to the next fiscal year's liability premium.

Let's look at the results for fiscal year 2000 premium credits. **For FY 2000, there were a total of 788 qualified students for a total premium credit of $15,760.** As you can see in the chart at the right, four state agencies represented 81% of that total.

By comparison, for FY 1999, there were a total of 747 qualified students for a total premium credit of $14,940, and in FY 1998, a total of *732 qualified students*, for a total premium credit of *$14,640*. Since premium credits are given for the following fiscal year's premium billing, the premium credits shown are for those people who participated in a defensive driving course the previous year. As you can see, the mix of state agencies who dominate the totals changes from year to year, primarily because credits are allowed only on an *every other year* basis. Even though the credits aren't allowed annually for the same qualified drivers, agencies still experience significant savings to their liability premiums.

It is clear the Statewide DDC program continues to make effective strides in promoting safe driving and in lowering liability premiums for state agencies. However, the overall effectiveness of this program is due to the cooperation and efforts of *all* participating State agencies.

Our continued goal is to increase State agency participation in this program while keeping in mind that agencies vary greatly in size, usage of State vehicles and the number of employees who use their personal vehicles for state business.

For further details on the Statewide Defensive Driving Course program, you can review the Statewide Safety and Loss Control Program Model at **www2.state.id.us/adm/insurance/rm/islcpm1.htm.** Refer to appendix item number 6.1.17.

Premium Credits

	FY1998		FY 1999		FY 2000	
Correction	151				ITD	405
H&W	97	F&G	482	H&W	101
ITD	93	ITD	152	ISU	71
Health Dist. 1	86	H&W Region 4	97	Lands	62
All Other Agencies	305	All Other Agencies	16	All Other Agencies	149
Total	732	Total	747	Total	788

"E-Business" Continued from page 1

- Privacy
- Information theft
- Content and software code infringement
- Destruction, modification or disclosure of electronic data
- Attacks
- Security breaches such as unauthorized access or unauthorized use
- Implantation or spread of a computer virus
- Fraud, including theft of customer funds or credit card numbers, theft of computer system resources and extortion
- Programming errors

A primary risk management tool to assess the specific exposures you face is to complete a *security risk survey*. The survey would be a valuable due diligence report on security risks measured against an established minimum standard. The standard can be an international security standard adapted to the specific needs of your organization, or it can be a survey to assure that the minimum standards you now have in place are being adhered to. The initial survey should be directed by your own Information Technology staff. Outside professionals from corporations such as IBM are performing security risk surveys and as your self managed survey indicate, it may be important to invest in that extra step.

It seems that the most important components in transacting business on the internet are *knowing those people* to whom you are entrusting your company's or organization's assets before engaging in internet commerce, and to communicate with each other the experience, processes used, results and the positives and negatives of your e-Business activities. ***Know who you are engaged with and talk to each other.***

A crisis related to your internet and network activities requires immediate action. A *plan of action* to provide a rapid emergency response must be in place. As possible, funds should be available to secure specialized consultants to assist in preserving your public and political reputation and analyse security breaches or attacks to minimize damage and prevent future occurrences.

Making Life Easier

E- News
from the *S*tate *I*nsurance *F*und

Marsha McKinney, Risk Management Consultant, State Insurance Fund
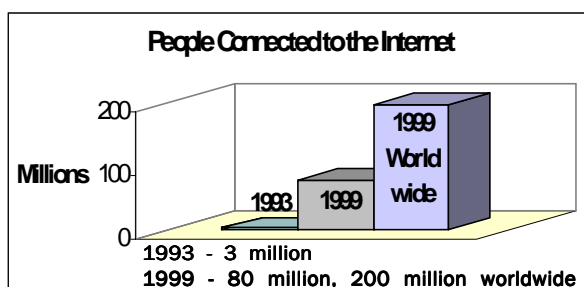
Will computers, e-commerce, and e-mail REALLY give us a paperless society? If so, it hasn't arrived at my desk yet, but there is one bit of paper we can help you eliminate. On the back page of the Spring 2000 issue of *compUpdate*, the Idaho State Insurance Fund's quarterly newsletter, is a small article advising our policyholders that the First Report of Injury and Illness is now available as a Word document. This form looks slightly different from the old one, but eventually our hard copy claim forms will look like this new form. If you have Microsoft Word 97, you can complete the form on your computer and e-mail it to us as an attachment.

While an electronic claim form might not be the answer for everyone, it can be a real advantage, especially if you have offices and employees (with computer access) scattered around the state. You can save time, postage, and paper while making sure the form gets routed to all the right people—both within your individual agency and the State Insurance Fund. And, you will have a record of when reports were sent, to whom, and whether they received them.

To receive a copy of the form and instructions, e-mail your request to forms@isif.state.id.us. Please include your business name and address, policy number, phone number, and a contact name.

For more information, check out the State Insurance Fund's website at www2.state.id.us/isif.

People Connected to the Internet

Millions

1993
1999
1999 World wide

1993 - 3 million
1999 - 80 million, 200 million worldwide

Internet Facts...
- In 1999, Internet-related jobs doubled to 2.5 million, generating $524 billion in revenue
- 44% of US companies sell online
- Small businesses using the Internet are growing 46% faster than businesses not using the Internet

Idaho Internet Facts...
- Idaho ranked 5th-fastest growing high-tech state
- Boise ranked 3rd among fastest-growing high-tech cities
- Idaho high-tech industry adds 8,400 jobs between 1993 and 1998

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